

PARTICIPATING AREA AND ALLOCATION OF PRODUCTION EXPLORATION, DEVELOPMENT, AND PRODUCTION UNITS

According to 30 CFR 250.1301, you, the other lessees, and the unit operator must enter into a Unit Agreement for the MMS Regional Supervisor's approval. Articles XI and XII of most Exploration, Development and Production Unit Agreements approved after 1969 require the unit operator to establish a participating area and to allocate production within the participating area based on net acre-feet or surface area under original reservoir conditions and proportionally credited to the respective leases. The following discusses procedures you should use to establish the initial, and revise an existing, participating area and allocation of production to unitized leases. Since these may vary, consult each unit agreement to determine if it contains a procedure different than outlined below.

I. INITIAL PARTICIPATING AREA AND ALLOCATION

A. NET ACRE FEET ALLOCATION

1. EFFECTIVE DATE - The effective date of the initial participating area and Exhibit C (Lease Allocation) is the date production of unitized substances begins.
2. DATA SUBMITTAL – You should furnish geological maps and engineering data sufficient to support the net acre-feet determination for volumetric allocation between leases. Submit:
 - a. Maps: Structure maps and isopach maps (net gas, net oil, and net sand) for every sand penetrated with intentions to produce. Include all fluid contacts and well penetrations with log tops and nets. A scale of 1" = 2000' is preferred.
 - b. Interpretation Support Data: Annotated well logs, key seismic lines supporting the interpretation and/or reservoir limits, pay counts, engineering information, and other data as necessary.
 - c. Participating Area Plat: Plat which depicts the entire unit area and the participating area contained therein. This plat should reflect the unitized leases or portions of leases (with designated blocks and OCS numbers) within the unit area and the ¼, ¼, ¼ block aliquot outline of the composite peripheral limits of all producing reservoirs. The area within this outline is the number of acres committed to the participating area. Each participating lease or portion thereof should have a well completion in a unitized reservoir(s). The working scale of this plat should be identical to the maps from which it was derived. Reduced display maps (8 ½ x 11 or 8 ½ x 14) are also required.

- d. Exhibit C: This exhibit should have the following columns:
- (1) Lease: OCS lease number (show only leases in participation).
 - (2) Number of Participating Acres: Total surface acres from the participating area plat.
 - (3) Number of Original Equivalent Acre-Feet Allocated: Subdivide this column into oil, gas, and total. If both oil and gas acre-feet are produced, convert the gas acre-feet to oil acre-feet and show the total. The equivalency ratio worksheet (section I.A.1.e) supports this conversion. If only oil acre-feet or gas acre-feet are allocated, an equivalency conversion should not be necessary. Show the other commodity as zero.
 - (4) Percent Unit Allocation: Percentage of oil and gas production allocated to each lease for royalty purposes, calculated from the Number of Original Equivalent Acre-Feet Allocated, and should total 100 percent.
- e. Equivalent Ratio Worksheet: Include the equivalent ratio worksheet if both oil and gas acre-feet are produced. Convert the gas acre-feet to oil acre-feet. The preferred method of conversion is BTU equivalency. There are two worksheets: one for units with leases that all have the same royalty rate, and another for units with at least one lease with a different royalty rate.

B. SURFACE ACRE ALLOCATION

1. EFFECTIVE DATE: The effective date of the initial participating area and Exhibit C (Lease Allocation) is the date production of unitized substances begins.
2. DATA SUBMITTAL – Furnish geological maps and engineering data sufficient to support the surface acre allocation between leases. Submit:
 - a. Maps: Structure maps for every sand penetrated with intentions to produce. Include all fluid contacts and well penetrations with log tops. A scale of 1" = 2000' is preferred.
 - b. Interpretation Support Data: Annotated well logs, key seismic lines supporting the interpretation and/or reservoir limits, engineering information, and other items as necessary.
 - c. Participating Area Plat: Plat which depicts the entire unit area and the participating area contained therein. This plat should reflect the unitized leases or portions of leases (with designated blocks and OCS numbers) within the unit area and the ¼, ¼, ¼ block aliquot outline of the composite peripheral limits of all producing reservoirs. The area within this outline is the number of acres committed to the

participating area. Each participating lease or portion thereof should have a well completion in a unitized reservoir(s). The working scale of this plat should be identical to the maps from which it was derived. Reduced display maps (8 ½ x 11 or 8 ½ x 14) are also required.

- d. Exhibit C: This exhibit has the following columns:
- (1) Lease: OCS lease number (show only leases in participation).
 - (2) Number of Participating Acres: Total surface acres from the participating area plat.
 - (3) Number of Reservoir Acres: Number of acres contained within the composite reservoir outline and the basis upon which the percentage of unit production is allocated to the respective unit leases. This type of allocation does not differentiate between oil and gas. It is based only on geologic surface acres.
 - (4) Percent Unit Allocation: Percentage of oil and gas production allocated to each lease for royalty purposes, calculated from the Number of Reservoir Acres allocated, and should total 100 percent.

II. REVISED PARTICIPATING AREA AND ALLOCATION

Periodically revise the established participating area and Exhibit C (Lease Allocation) to include additional lands reasonably proven to be productive in the same manner as described above, or lands proven not to be productive to be excluded in the same manner. Do not exclude any land from the participating area based on depletion of unitized substances.

The revised participating area and allocation are not effective until approved by MMS. The effective date of any revision is the first of the month in which the information is obtained which provides the basis for approval of the revision.

EXHIBIT C – EXAMPLE FOR NET ACRE FEET**LEASE PARTICIPATION AND ALLOCATION**

_____ UNIT

OFFSHORE _____

LEASE	NUMBER OF PARTICIPATING ACRES	NUMBER OF ORIGINAL EQUIVALENT ACRE FEET ALLOCATED			PERCENT UNIT ALLOCATION
		OIL	GAS	TOTAL	
TOTALS					100.00000

EXHIBIT C – EXAMPLE FOR SURFACE ACRES**LEASE PARTICIPATION AND ALLOCATION**

_____ UNIT

OFFSHORE _____

LEASE	NUMBER OF PARTICIPATING ACRES	NUMBER OF RESERVOIR ACRES ALLOCATED	PERCENT UNIT ALLOCATION
TOTALS			100.00000